



STATE OF WASHINGTON

## ECONOMIC AND REVENUE FORECAST COUNCIL

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June 10, 2006

**TO:** Representative Jim McIntire, Chair  
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Senator Mark Doumit  
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**FROM:** ChangMook Sohn, Executive Director  
Economic and Revenue Forecast Council

**SUBJECT:** June 10, 2006 REVENUE COLLECTION REPORT

General Fund-State (GFS) collections totaled \$1,349.6 million in the May 11–June 10, 2006 collection period. Tax payments continue to outperform the forecast. Collections were \$14.2 million, 1.1 percent higher than expected for the month. As in recent periods, both Revenue Act taxes (sales, business and occupation, use, and public utility), and real estate excise tax payments account for the positive variance. Revenue Act sources exceed the estimate by \$22.2 million and real estate excise tax payments were \$4.4 million higher than expected. Other major GFS taxes were, on the whole, less than expected this month. This month's higher than expected receipts, increases the cumulative variance in the four months since the February forecast to \$135.5 million (3.5 percent).

Recent economic news has been mixed. The U.S. unemployment rate declined to 4.6 percent in May from 4.7 percent in February. This is the lowest unemployment rate in nearly five years. Job growth, however, was very weak. The U.S. economy added only 75,000 jobs in May and the April number was revised down from 138,000 to 126,000 jobs. The May's job gain was much weaker than expected and the weakest since last October. Washington's labor market is doing better. The Washington economy added 5,200 jobs in April and has added 94,700 jobs since April 2005. Although the state's unemployment rate increased from 4.6 percent in March to 4.7 percent in April, it remains very low by historical standards. Other evidence of some of the weakness at the national level included the report from the Conference Board that their Index of Consumer Confidence, which rose to a four year high in April, declined in May. In addition, the Conference Board reported that the U.S. Index of Leading Indicators decreased 0.1 percent in April. The index has now declined two of the last three months, although it has increased 1.5 percent during the six-month span ending in April.

Revenue Act collections were \$22.2 million higher than expected this month. Payments included two large and unexpected audit payments (\$10.5 million); however, the majority of the variance continues to reflect stronger than expected spending. Tax payments this period primarily reflect April 2006 activity of monthly taxpayers. Although tax payments were again higher than expected this month, revenue growth finally decelerated a bit. Revenue Act collections were 7.1 percent higher than a year-ago (adjusted for special factors). This is the weakest increase since February 2005 and noticeably weaker than recent months. Last month Revenue Act receipts rose 12.0 percent (revised), the same as the average growth for the entire first quarter of 2006. Despite this month's deceleration in the pace of spending, growth for both the four months since the February forecast and the fiscal year-to-date Revenue Act growth has averaged a very strong 10.7 percent.

Preliminary information on tax payments by industry for the current period shows solid growth in the retail trade sector and overall, somewhat weaker growth in the non-retail sectors. Tax payments by firms in the retail trade and food services sector increased 9.6 percent. Last month retailers reported an 8.7 percent increase. Five retailing categories reported double-digit increases this month: electronic and appliance stores (+30.3), general merchandise stores (+19.0), building materials/garden equipment retailers (+11.9 percent), furniture and appliance retailers (+11.5 percent) and gas stations and convenience stores (+10.4 percent). Auto dealers, the largest retailing sector, reported a 4.9 percent increase; last month this sector was up 6.9 percent. Overall, tax payments of firms in non-retail trade and food services sectors were a little weak. Tax payments from non-retail firms were up only 3.7 percent. Last month tax payments from non-retail sectors increased 6.7 percent. There was significant difference among sectors. Construction remained strong, with tax payments 16.2 percent higher than a year-ago. Last month this sector reported a 16.4 percent increase. There were few weak non-retailing sectors this month most notably the manufacturing sector. Tax payment by firms in the manufacturing sector were 13.7 percent less than a year-ago. However, as has been the case for several months, this was due to higher tax credit utilization, not weaker activity. The strength of real estate activity on overall revenue growth is again evident this month. Tax payments of firms in construction and housing related sectors increased 13.4 percent in compared to 4.5 percent for all other sectors.

Non-Revenue Act General Fund taxes were \$8.5 million below the estimate for the month. Real estate excise tax payments were again strong and exceed the forecast by \$4.4 million for the month. However, property tax collections for the month were \$12.0 million less than expected. Monthly property receipts are very volatile and the majority of the property tax shortfall is assumed to be due to timing and will be recouped in future months. Most other Non-Revenue Act taxes were close to the estimate for the month. transfers. Cumulatively for the three months since the February forecast, Non-Revenue Act taxes are \$15.8 million more than expected, with real estate excise taxes exceeding the estimate by \$32.2 million.

Although real estate excise tax payments exceeded the forecast for the month, real estate activity weakened. Taxable real estate activity in the most recent month (closings in April 2006 which reflect tax payments to the state in May 2006) were 0.6 percent below the year-ago month. This is the first year-over-year decline since January 2004. In the prior month, activity increased 13.1 percent and activity had increased at a double-digit rate twenty-three of the previous twenty-five months. In the current month, the number of transactions declined 10.5 percent; this is the fifth consecutive month in which transactions have been below the year-ago level. Prices, however, still remain strong. The average value per transaction increased 11.1 percent in the current month. Last month the value per transaction increased 20.1 percent. For more than a year, the forecast has been assuming that real estate activity would weaken. And while we have seen weak months before only to be followed by more double-digit gains, it is likely that mortgage rates will continue to edge up and the real estate market will continue to soften in the coming months.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$439,000 above the estimate for the month and are \$479,000 higher than expected in the four months since the February forecast.

The attached Table 1 provides a comparison of collections with the February 2006 forecast for the May 11, 2006 – June 10, 2006 collection period. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

**TABLE 1**  
**Revenue Collection Report**  
**June 10, 2006 Collections Compared to the February 2006 Forecast**  
**Thousands of Dollars**

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Amount</u>	<u>Difference</u> <u>Percent</u>
<b>May 11 - June 10, 2006</b>				
Department of Revenue-Total	\$1,331,474	\$1,345,248	\$13,774	1.0%
Revenue Act** (1)	766,527	788,761	22,235	2.9%
Non-Revenue Act(2)	564,948	556,486	(8,461)	-1.5%
Liquor Sales/Liter	11,464	10,666	(799)	-7.0%
Cigarette	4,033	4,385	352	8.7%
Property (State School Levy)	453,606	441,648	(11,958)	-2.6%
Estate	89	(542)	(631)	NC
Real Estate Excise	69,650	74,090	4,440	6.4%
Timber (state share)	2,004	1,962	(42)	-2.1%
Other	24,101	24,276	175	0.7%
Department of Licensing (2)	3,962	4,401	439	11.1%
Lottery (5)	0	0	0	NA
<b>Total General Fund-State***</b>	<b>\$1,335,436</b>	<b>\$1,349,648</b>	<b>\$14,212</b>	<b>1.1%</b>
<b>Cumulative Variance Since the February 2006 Forecast (Feb. 11, 2006 - June 10, 2006)</b>				
Department of Revenue-Total	\$3,913,587	4,048,558	134,971	3.4%
Revenue Act** (3)	3,075,099	3,194,309	119,210	3.9%
Non-Revenue Act(4)	838,488	854,250	15,762	1.9%
Liquor Sales/Liter	42,525	42,816	290	0.7%
Cigarette	15,204	15,917	713	4.7%
Property (State School Levy)	477,609	464,236	(13,373)	-2.8%
Estate	356	(742)	(1,099)	NA
Real Estate Excise	240,830	272,980	32,150	13.3%
Timber (state share)	4,500	4,211	(288.5)	-6.4%
Other	57,463	54,832	(2,631)	-4.6%
Department of Licensing (4)	8,508	8,988	479	5.6%
Lottery (5)	0	0	0	NA
<b>Total General Fund-State***</b>	<b>\$3,922,096</b>	<b>\$4,057,546</b>	<b>\$135,451</b>	<b>3.5%</b>

1 Collections May 11 - June 10, 2006. Collections primarily reflect April 2006 activity of monthly taxpayers.

2 May 2006 collections.

3 Cumulative collections, estimates and variance since the Feb. 2006 forecast; (February 11 - June 10, 2006) and revisions to history.

4 Cumulative collections, estimates and variance since the February 2006 forecast;(Feb.- May 2006 collections) and revisions to history.

5 Lottery transfers to the General Fund

\* Based on the February 2006 economic and revenue forecast.

\*\*The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

\*\*\* Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

**TABLE 2**  
**May 10, 2006 Collection Report - Revised Data**  
**Thousands of Dollars**

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
<b>April 11 - May 10, 2006</b>				
Department of Revenue-Total	\$1,092,908	\$1,092,908	(\$0)	-0.0%
Revenue Act (1)	945,824	945,824	0	0.0%
Non-Revenue Act(2)	147,083	147,083	0	0.0%
Liquor Sales/Liter	11,730	11,730	0	0.0%
Cigarette	3,553	3,553	0	0.0%
Property (State School Levy)-net	40,153	40,153	(0)	-0.0%
Estate	(892)	(892)	0	-0.1%
Real Estate Excise	80,121	80,121	(0)	-0.0%
Timber (state share)	0	0	0	NA
Other	12,418	12,418	(0)	-0.0%
Department of Licensing (2)	3,915	3,915	0	0.0%
Lottery (2)	0	0	0	NA
Total General Fund-State***	1,096,823	1,096,823	(\$0)	-0.0%

**Cumulative Receipts: Feb. 11 - May 10, 2006 & Revisions to History**

Department of Revenue-Total	\$2,703,311	\$2,703,301	(\$10)	-0.0%
Revenue Act (3)	2,405,547	2,405,538	(9)	-0.0%
Non-Revenue Act(4)	297,763	297,763	0	0.0%
Liquor Sales/Liter	32,150	32,150	(0)	-0.0%
Cigarette	11,531	11,519	(12)	-0.1%
Property (State School Levy)-net after transfer	22,587	22,586	(1)	-0.0%
Estate	(200)	(210)	(10)	5.2%
Real Estate Excise	198,890	198,918	28	0.0%
Timber (state share)	2,249	2,249	0	NA
Other	30,556	30,552	(4)	-0.0%
Department of Licensing (4)	4,587	4,642	55	1.2%
Lottery (4)	0	0	0	NA
<b>Total General Fund-State***</b>	<b>\$2,707,898</b>	<b>\$2,707,943</b>	<b>\$45</b>	<b>0.0%</b>

Preliminary. Reported in the May 10, 2006 collection report.

1 Collections April 11 - May 10, 2006. Collections primarily reflect March 2006 business activity of monthly taxpayers and q1, 2006 activity of quarterly filers.

2 April 1-30, 2006 collections.

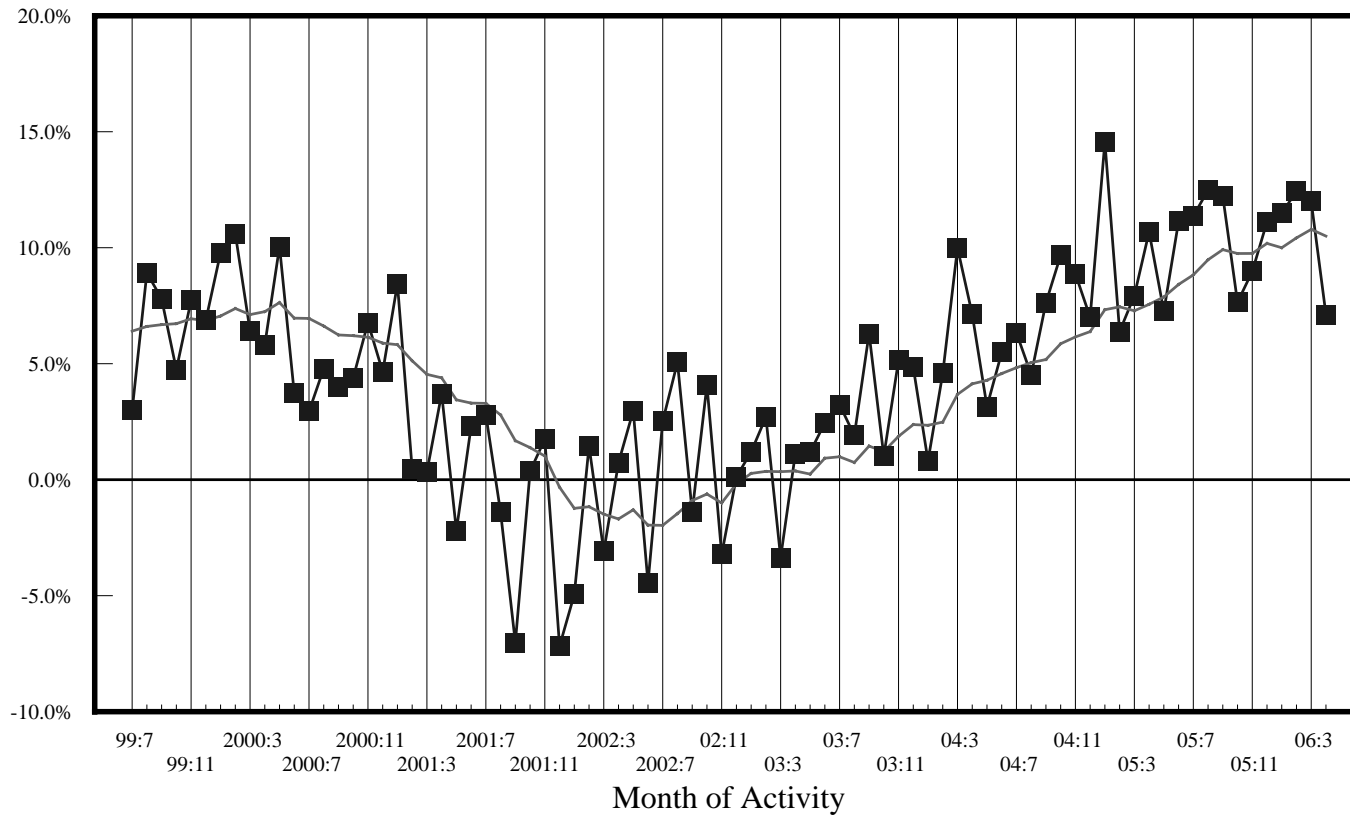
3 Cumulative receipts since the February 2006 forecast: Feb. 11-May 10,2006 & revisions to history.

4 Cumulative receipts since the Feb. 2005 forecast ( Feb. - April 2006) & revisions to history.

\* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

# Revenue Act Net Collections\*

Year-over-Year Percent Change



■ %CH from year-ago month

— %chya (12 month moving average)

\*collections excluding new legislation and special factors